



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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February 11, 2011

TO: Audit Committee

FROM: Connie K. Chung, *CKC* Division Chief
Disbursements Division

SUBJECT: **2005-2008 STATE BOARD OF EQUALIZATION USE TAX AUDIT**

Every three years, the State Board of Equalization (SBE) audits the County to ensure use taxes are paid on taxable items. The SBE selects a sample of County purchases to determine whether any required tax was actually paid. The SBE then projects the error rate from their sample to compute the County's total use tax liability for the entire audit period. The most recent SBE audit covered July 1, 2005 to June 30, 2008, and resulted in a preliminary County use tax liability of approximately \$6.5 million, plus interest on the unpaid taxes.

The Auditor-Controller's Disbursements Division reviewed the SBE's draft audit results, and worked closely with County departments and vendors to obtain missing documents to show that tax was paid or was not applicable. Disbursements also questioned some of the SBE's larger dollar findings. Through these efforts, Disbursements was able to reduce the County's liability to approximately \$1.8 million, which also reduced the County's interest liability.

The Disbursements Division will allocate the remaining audited tax liability among all County departments based on each department's Fiscal Year 2009-10 Services and Supplies expenditures. The approximately \$580,000 interest liability will be paid by the General Fund. In the next few weeks, we will issue a memo to all Administrative Deputies and Fiscal Officers informing them of the audit findings, and the distribution of the tax liability.

Because of the frequent changes and ambiguity in sales and use tax laws and regulations, we will continue to keep County departments informed of sales and use tax rules through presentations to the departments. In these presentations, we cover areas such as IRS/SBE regulations pertaining to the County, record retention requirements, best practices for payment processing, etc. We also encourage departments to contact

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us with any questions they may have regarding sales and use taxes. Our goal is to significantly reduce the County's liability in the next audit.

Please call me if you have any questions, or your staff can call Anthony Kim at (213) 974-8402 or Christopher Wright at (213) 974-8428.

CKC

c: Wendy L. Watanabe, Auditor-Controller

